

# TheEESStory.com: A Virtual Chat with Ian Clifford

Wednesday, October 01, 2008



## Questions for Ian Clifford

Before I begin to answer the specific questions I just wanted to make several general comments. First of all I want to assure your readers that ZMC has always had internal and 3rd party subject matter experts who are knowledgeable about EESor's technology and provide ongoing counsel to the Company, and while I cannot get in to any specific technological questions related to the EESU, we remain confident in EESor's ability to bring their breakthrough energy storage to commercialization. Secondly, ZMC is well-positioned with both resources and relationships to rapidly deploy the EESU across our product offerings once commercially available. And finally, as a public company, we can only communicate and clarify information that is already in the public domain, so some of my responses may be a bit circumspect if they relate to undisclosed information.

**1) You've said Europe is likely to be the first market to see the cityZENN go on sale. Can you provide guidance on when the cityZENN will also appear in North America, Asia, and other markets?**

What I believe I said, or certainly intended to state, was that Europe may be the initial market for the cityZENN. ZMC has not formally

announced specific geographic target markets for the launch of cityZENN. Our plan however, is to launch the cityZENN in global markets where we meet local certification/homologation standards. Our priority for the cityZENN is speed-to-market in appropriate global markets.

**2) You have stated ZMC intends to specialize in electric drive systems. Can you please detail what steps you have taken to assemble the necessary expertise such as how many electrical engineers currently work for ZMC?**

We have a very strong, experienced engineering team led by our VP Engineering, Michael Bergeron, who has over eight years experience in the EV space, including his years at Global Electric Motorcars where he ran their engineering and manufacturing. We are committed to continue building our internal engineering resources and will also continue to access third party consultants and partners who can provide specific subject-matter expertise in order to ensure the timely delivery of world-class solutions.

**3) As a Canadian and a shareholder I am invested, financially and emotionally, in the long-term future of your company. ZMCs potential growth in 10-15 years is truly staggering, and would mean a lot to this country. I do not want to see it become the next AVRO Arrow. According to the March 31, 2008 MDA, "ZENN Motor Company's mission is to be the global leader in Zero Emission transportation solutions." Can you give me anything specific to go on, to believe that ZMC is committed to continuing indefinitely "as is", and has taken serious steps to ensure that it will not be taken over, bought out, packed in or broken up?**

Our mission statement has remained the same since I founded the company in 2001 and we remain entirely focused and committed to the global adoption of electric drive to meet our transportation needs. As a widely-held, publicly traded company, there are only so many steps that we can take to safeguard against a hostile takeover. Rest assured that we will take all reasonable measures to ensure that our mission is realized.

**4) ZMC has stated that the first production EESU will be delivered before the end of the year. Are you still completely confident that this will occur according to schedule?**

ZMC remains the initial recipient of production EESUs from EESStor. The delivery timeframe of production prototype EESUs is entirely within the purview of EESStor. We are confident that they are working towards full commercialization as rapidly as possible.

**5) Mr. Clifford are you and Richard Weir friends? Do you have barbeques together, talk about the future and generally just "hang out"? Also, have you ever gotten a phone call from your parents or a close relative where the conversation started with, "Ian, it's Uncle Theodore. What is dielectric saturation?"**

There are a couple of elements to this question so I will start with the first. Given that we live in different countries, Dick and I do not regularly 'BBQ' together, however, for our frequent meetings in Austin we go to this great Texas BBQ place. That being said, I think what you are looking for is an understanding of the type of relationship Dick and I have. First and foremost, we have a business relationship. But you cannot be in business with someone for years without developing a friendship. When EESStor and ZMC first met and began business discussions, it was clear that we saw eye to eye on the potential for both companies. My motivation for founding ZMC is routed in the environmental imperative to replace fossil fuels as the primary fuel for transportation. I believe both companies want to change the world, for the better.

I don't have an Uncle Theodore and if I did, he would know better than to ask!

**6) The word "imminent" was used to characterize when ZMC's investors could expect an announcement from EESStor on permittivity, but since then you have said EESStor has decided to take a slightly different path. Can you elaborate on what has changed?**

The milestone announcements are entirely within the purview of EESStor. And, under our NDA with EESStor we cannot elaborate on EESStor's scheduling plans. I can however state that ZMC continues to invest in its product development plans, including the ultimate integration of EESStor's technology.

**7) Who is responsible for warranty costs associated with EESU's and liabilities (i.e. injury, death, property damage, etc.) arising out of their use, EESTOR or ZMC?**

This information cannot be disclosed at this time, however we are in regular dialogue with EESor regarding issues related to the commercial EESU.

**8) If FedEx popped by your manufacturing facilities tomorrow to drop off a fully functional 52kwh EESU, what would you do with it? Further, if you got a follow up call from Dick Weir that said, "Surprise, there's up to 10,000 more just waiting for you to let me know where to ship them, "what would the remaining 5 milestones be to get those into cityZENN? How long would it take you to complete that mission? Also, everyone talks about the milestones EESor must reach to meet its agreement with ZMC but besides payments, does ZMC have any milestones to deliver to EESor? Does ZMC have to produce a crash test proven vehicle to complete the agreement with EESor Inc.?**

As clearly outlined in our AGM last March, engineering and production readiness is focused primarily on the integration of EESor EESUs into both ZENNergy drive and cityZENN solutions, as well as product enhancements to our low speed vehicle lineup. While certain details of our Technology Agreement are not disclosed for obvious reasons, there are no contractual roadblocks to either receiving production EESUs or the rollout of ZENNergy drive and cityZENN.

**9) The 2008-3Q MDA said, "The Company is currently engaged in negotiating a supply agreement for the cityZENN project." What criteria was used to select an OEM for the cityZENN? Also is/was more than one OEM supplier being considered?**

Details of the cityZENN rollout have not been publicly disclosed. When we announce the program I am sure your questions will be answered.

**10) Your Chairman of the Board is also chairman for a publicly traded trucking company. Since EESor's technology could drastically reduce operating cost for ground shipping, are there plans to work with Mr. McGraw's trucking company?**

Currently there is no public disclosure indicating any relationship between the entities mentioned.

**11) Any progress on the NASDAQ & TSE listings?**

Both remain under consideration by our advisors and board of directors.

**12) Questions have been raised about whether or not announcing permissivity would result in EESstor's founders losing control of the company since this would trigger the option for certain existing investors, with ZMC being one, to increase their ownership in EESstor. Does the Technology Agreement allow EESstor to still deliver production EESUs at the cost previously agreed to without announcing permissivity?**

The Shareholder structure of EESstor as a private company is not disclosed. Delivery of a production EESU presupposes permissivity.

**13) When EESstor starts producing EESUs, it is likely that ZENN will require additional funding to produce its ZENNergy Drive for OEMs. Without getting into specifics can you share your thoughts on how you may proceed to get additional working capital (i.e. issue bonds, sell additional stock, team up with a larger partner that can bring financial leverage or can produce the other components of the drive)?**

We remain confident in our ongoing ability to raise operating and growth capital at the key milestones in the evolution of ZENN Motor Company.

**14) Mr. Clifford, it appears you have invested much time and capital attempting to carve a niche in the Neighborhood Electric Vehicle market, not to mention the additional resources expended to obtain approval for use in various markets such as Canada. When compared to the enormous market potential for a fully highway rated "cityZENN" along with other potential EESstor derivatives, some of us in the investment community are curious as to why ZMC continues to invest in such a market. At this time, would it not be a better use of resources to fully focus and prepare for what you conservatively describe as a revolutionary, game-changing opportunity with EESstor? As a follow up, what "rough" revenue goals (\$ or %) have you targeted for 2010-2013 with respect to the various product lines? Thank you.**

While our revenue targets are not publicly disclosed, I once again refer you back to our AGM in March of 2008 where our go-to-market strategy was clearly articulated.

We have a four-legged approach to the rollout of electric drive solutions:

Development of ZENergy drive train solutions for specific platforms of any OEM's product line and to then go to market through that OEM's distribution channel on a co-branded basis.

Development and launch of the cityZENN by the end of 2009. Retrofits (ICE Conversions). Initial key demonstration platforms will be focused on fleets (taxi, courier, utility).

Future: mass platform commercialization

Further enhancement of our LSV offering including a 4 passenger version and appropriate expansion into other markets

**15) Why are the EESor common shares (for a 3.8% stake in EESor) owned by ZENN Capital and not ZENN Motor Company? It's a common business practice to separate businesses to distribute risk so that in case of catastrophic failure of one unit, all of the others don't go down too. Is there some similar strategy at play here? What benefit to the shareholder of ZMC is gained by the EESor shares being held by ZENN Capital? What increased risk exists under this arrangement?**

It is entirely normal business practice to isolate various corporate business units and investments. There can be tax benefits as well. ZENN Capital is a wholly owned subsidiary of ZMC, Inc and as such, is wholly owned by all the shareholders of ZMC, Inc. on a pro-rata basis.

**16) What regulatory agencies need to approve the use of a 3500 volt electrical system in cars? Have they been contacted, and is the way clear?**

Various regulatory agencies will be involved in the certification process. The approval process is very well understood by both engineering teams.

**17) For private builders, such as my self, would I need to deal with EESor or ZMC directly in order to buy a single, private use EESU device. If ZMC, will my home built car need to be licensed through ZMC and what is the predicted availability of EESU's for home builders?**

With respect to utilizing the EESstor technology, ZMC possesses the global perpetual rights for all new 4-wheeled passenger vehicles up to 1400kg curb weight, the non-exclusive rights for new 4-wheeled passenger vehicles greater than 1400kg curb weight, the global perpetual rights for the conversion of any used 4-wheeled internal combustion vehicle to electric drive, and the global perpetual rights for golf carts and small utility vehicles. If the vehicle in question is within our exclusivity, you will need to deal with ZMC.

**18) Given all of the advancements currently going on in the technologies required to make the Internal Combustion Engine obsolete and BEVs and PHEVs widespread, I think it is realistic to assume that in 5 years, 3 to 5% of all vehicles will be driven by electric motors and that in 10 years that percentage may increase to 20 to 25%. Given your current knowledge of all technologies, not just EESTOR, do you think I am optimist, pessimistic, or realistic in my forecast?**

History has demonstrated that breakthroughs in science and technology can have an extremely rapid and disruptive uptake. At this point in time, I would suggest that there is a growing demand for zero emission transportation alternatives to internal combustion vehicles and with the right solutions that meet the needs of the majority of people on the planet, the change could happen very, very quickly. Obviously, time will tell, and we will do everything in our power to facilitate as rapid a transition as possible.

**19) ZMC does not appear to have the financial resources to remain in business long enough to ride out an extended delay in the EESU's arrival. What is the contingency plan to ride out any such delays?**

In our last quarterly disclosure (June 30th 2008), we indicated over \$16 million in cash on our balance sheet which takes us well into the future at our current burn rate. Also, as you can see in question 14, we have active plans for a variety of product solutions, not all of which are EESU dependent.

**20) As a public company and a stock holder when you make public statements with delivery of EESstor products that you and EESstor clearly stated such as 15k EESU production ready by end of 2007, and then 2008, cityZENN EESU production unit by end of 2008 and ready for the streets in 2009 also permittivity results immanent. All of these has not happen or is not going to**

**happen, how can we believe any milestone delivery in the future? I understand the risk are clearly stated in the perspective to protect the company, but missing deadlines as stated above, does not give confidence in ZMC management's ability to deliver on strategic milestones. So my questions is this, how can you ensure us (stockholders) you can make future milestone?**

Once again, while we do not control the timing and rollout of production EESUs from EESor, we remain closely aligned with their progress towards commercialization and we adjust our planning and product strategies accordingly. I want to reemphasize the close working relationship we have with EESor and our confidence that they will deliver a production EESU to the market.

**Alternative Questions:**

**1) If gas drops a bit to the low \$3s in the US and holds steady there, do you see a repeat of the 80s where the interest in more efficient cars wanes? Obviously alternative fuel cars are here to stay, just like Hondas made it here permanently in the early 80s, I'm just curious what your thoughts are.**

I personally believe that the writing is on the wall as evidenced by the level of public interest in zero emission transportation alternatives and the simple reality that there really isn't a car company on the planet that hasn't announced a zero emission vehicle program. Of course all of this activity is being driven forward by the global environmental imperative to wean ourselves off petroleum. And it is certainly not only focused on the cost of fuel. It's coming.

**2) Mr. Clifford, what are the greatest leadership challenges you currently face? Thank you.**

See Canadian Business Article. My answer is copy and pasted below.

Managing our growth. We are starting a very strategic growth phase for the company. We have very strong engineering and marketing groups, and we are working hard to develop our business development team. Our focus, with the commercialization of EESor technology, is very much on relationships with other car manufacturers. Our ultimate goal is to provide an electric drive system solution for every car manufacturer on the planet, so they become our partner, not our competitor.

**3) Mr. Clifford, could you share with us how much digIT Interactive was purchased for in March 2000? You don't have to disclose your share of that sale but people are interested.**

While that transaction value is not publicly disclosed, digIT Interactive, of which I was a co-founder in 1995, was built up to a 40 person enterprise with offices in Toronto and Ottawa. We had many top Fortune 50 clients throughout North America.

**4) In the past, you've been asked about the existence of EESstor prototypes and you've indicated you've seen them with your own eyes. You've responded at times by pointing out that you have an agreement with EESstor for production units though. Still, people criticize you for underplaying the relevance and importance of seeing a prototype that can perform a simple operation like lighting a lightbulb for a very long time. Is that criticism well placed or what are they missing?**

First of all, I have been very careful not to disclose what I have or have not seen under our NDA with EESstor. ZMC anxiously anticipates receiving production prototype EESUs. Our final Technology Agreement milestone with EESstor is payable on the delivery of a production prototype EESU. I think I have been extremely transparent in my position that the world is waiting for a mass-produced energy storage solution that EESstor satisfies.

**5) It's fairly well documented fact that many oil producing nations do not have North American values. You've been quoted as saying your goal is to help end the run of oil and largely placed your thoughts within the context of the environment. But at other times, it seems fair to say you've also targeted the impact of foreign oil on our economies. Do you worry that your thoughts here are inflammatory towards big oil? Do you worry about your safety? Do you have similar concerns with regard to EESstor--do you fear for their safety?**

If you look at how the world is shifting towards clean technology solutions in everything from electrical energy generation; desalination and purification of ocean water for drinking; inexpensive deep well systems for irrigation, you will note a common theme running through all these technology challenges. And that is the overwhelming requirement to inexpensively store and utilize electricity as a primary source of energy. Understanding that, the applications for EESstor's

technology are so widespread that I believe the opportunity for a massive shift towards electricity as THE primary global energy source across virtually every industry will indeed happen.

**And finally, courtesy of our attorneys:**

**Forward-looking Statement:**

Certain statements in this question and answer document may contain "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of ZENN Motor Company Inc. to be materially different from those expressed or implied by such forward-looking statements including but not limited to those risk factors discussed in the Company's most recent Annual Information Form. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. ZMC does not undertake to update any forward-looking statements, except in accordance with applicable securities laws.